

## INSURANCE AGREEMENT

**THIS INSURANCE AGREEMENT**, dated as of October 1, 2007, is entered into by and between AMBAC ASSURANCE CORPORATION, a Wisconsin-domiciled stock insurance company ("Ambac") and DUKE ENERGY CAROLINAS, LLC, a North Carolina limited liability company (hereinafter the "Company").

**WHEREAS**, pursuant to a Trust Agreement, dated as of October 1, 2007 (the "Trust Agreement"), by and between the North Carolina Capital Facilities Finance Agency (the "Issuer") and Deutsche Bank National Trust Company, as Bond Trustee (the "Trustee"), the Issuer has issued \$50,000,000 in aggregate principal amount of Solid Waste Disposal Revenue Bonds, Series 2007B (Duke Energy Carolinas Project) (the "Bonds"); and

**WHEREAS**, pursuant to a Loan Agreement, dated as of October 1, 2007 (the "Loan Agreement"), by and between the Issuer and the Company, the Issuer has loaned the proceeds of the Bonds to the Company and the Company has agreed to make payments in such amounts and at such times as will be sufficient to pay, when due, the principal of, premium, if any, interest on, and purchase price of, the Bonds, and has executed and delivered to the Trustee (as assignee of the Issuer) its promissory note, dated November 15, 2007 (the "Note"); and

**WHEREAS**, Ambac has issued a financial guaranty insurance policy with respect to the Bonds (the "Policy") which insures the payments of principal of and interest on the Bonds, as specified therein; and

**WHEREAS**, the Company understands that Ambac expressly requires the delivery of this Agreement as part of the consideration for the delivery by Ambac of the Policy;

**NOW, THEREFORE**, in consideration of the premises and of the agreements herein contained and of the execution and delivery of the Policy, the Company and Ambac agree as follows:

### ARTICLE I

#### DEFINITIONS; PREMIUM AND EXPENSES

Section 1.01. Definitions. Except as otherwise expressly provided herein or unless the context otherwise requires, the terms which are capitalized herein shall have the meanings specified in Annex A hereto.

Section 1.02 Premium. In consideration of Ambac agreeing to issue the Policy, the Company hereby agrees to pay to Ambac (i) on the Closing Date, the Initial Premium; (ii) on November 15, 2008, and on each November 15 thereafter, the Annual Premium, payable in advance; and (iii) on any date prior to November 15, 2012 that the Bonds are redeemed, defeased or otherwise retired or prepaid in whole or in part, an amount equal to the product of (A) the Premium Rate, (B) the aggregate principal amount of the Bonds redeemed, defeased or otherwise retired or prepaid on such date, and (C) the number of years (which may be expressed as a fraction) remaining from such date until November 15, 2012.

Once paid, no Premium is refundable in whole or in part for any reason (including, without limitation, in the event that the Bonds are retired prior to their stated maturity). To the extent that any payment of Premium is not paid when due, interest shall accrue on such unpaid amounts at a rate equal to the Effective Interest Rate and shall be payable on demand.

Section 1.03. Certain Other Expenses. The Company will pay all reasonable fees and disbursements of Ambac's counsel related to any modification of this Agreement requested by the Company.

## ARTICLE II

### REIMBURSEMENT OBLIGATION; COVENANTS OF THE COMPANY

Section 2.01. Reimbursement Obligation. (a) The Company agrees to reimburse Ambac, from any available funds, immediately and unconditionally upon demand for all amounts paid by Ambac under the Policy. To the extent that any such payment due hereunder is not paid when due, interest shall accrue on such unpaid amounts at a rate equal to the Effective Interest Rate.

(b) The Company also agrees to reimburse Ambac immediately and unconditionally upon demand for (i) all reasonable expenses incurred by Ambac in connection with any payment under the Policy and (ii) all reasonable expenses incurred by Ambac in connection with the enforcement by Ambac of the Company's obligations under this Agreement and the Bond Documents, together with interest accruing at the Effective Interest Rate on any unpaid expenses from and including the date which is 30 days from the date a statement for such expenses is received by the Company to the date of payment.

Section 2.02. Unconditional Obligation. The obligations of the Company hereunder are absolute and unconditional and will be paid or performed strictly in accordance with this Agreement, irrespective of:

(a) any lack of validity or enforceability of, or any amendment or other modification of, or waiver with respect to the Bonds or any of the Bond Documents;

(b) any exchange, release or nonperfection of any security interest in property securing the Bonds or the obligations of the Company under the Bond Documents or this Agreement;

(c) any circumstances which might otherwise constitute a defense available to, or discharge of, the Company or the Issuer under the Bond Documents or otherwise with respect to the Bonds; and

(d) whether or not the Company's obligations under the Bond Documents, or the obligations represented by the Bonds, are contingent or matured, disputed or undisputed, liquidated or unliquidated.

Section 2.03. Reorganization; Allocation of Debt. The Company hereby agrees that, in the event of a Reorganization, unless otherwise consented to by Ambac, the obligations of the Company under, and in respect of, the Bonds, the Bond Documents, and this Agreement shall be assumed by, and shall become direct and primary obligations of, a Regulated Utility Company, and the Company shall be released from its obligations under this Agreement.

## ARTICLE III

### NEGATIVE PLEDGE

Section 3.01. Negative Pledge; Delivery of First Mortgage Bonds. In consideration of the issuance of the Policy, in addition to payment of the Premium as herein provided, the Company agrees that, so long as any Bonds remain outstanding or any payment obligations under Section 1.02, 1.03 or 2.01 hereof ("Reimbursement Obligations") remain unpaid, if at any time, except as set forth below, the Company

shall issue any debt securities secured by assets owned by the Company and used in its regulated electric utility operations ("Additional Secured Debt"), the Company shall, concurrently with issuance of the Additional Secured Debt, deliver to Ambac First Mortgage Bonds to secure the payment to Ambac of the Reimbursement Obligations ("Ambac First Mortgage Bonds"); provided, that the Company shall not be required to deliver Ambac First Mortgage Bonds upon the issuance of Additional Secured Debt (x) in aggregate amount not in excess of \$500,000,000 and (y) in connection with one or more refinancings of First Mortgage Bonds. Additional Secured Debt issued pursuant to clause (y) of the preceding sentence shall be First Mortgage Bonds ("Refinancing First Mortgage Bonds") and may be issued in principal amounts equal to the principal amount of any First Mortgage Bonds or Refinancing First Mortgage Bonds to be retired ("Retired First Mortgage Bonds"); provided that any Refinancing First Mortgage Bonds are issued not more than 180 days after the retirement of the related Retired First Mortgage Bonds.

The Ambac First Mortgage Bonds shall be issued in a principal amount equal to 100% of the principal amount of the Bonds outstanding at the time the Ambac First Mortgage Bonds are issued, shall bear interest from the date of an occurrence of an Event of Default at a per annum interest rate equal to the rate on the Bonds and shall mature concurrently with the Bonds.

#### **ARTICLE IV**

##### **EVENTS OF DEFAULT; REMEDIES**

Section 4.01. Events of Default. The following events shall constitute Events of Default hereunder:

(a) The Company shall fail to pay to Ambac any amount payable under Section 1.02, 1.03 or 2.01 hereof and such failure shall have continued for a period in excess of ten days after receipt by the Company of written notice thereof;

(b) Any material representation or warranty made by the Company hereunder or any material statement in the application for the Policy or any material report, certificate, financial statement or other instrument provided in connection with the Policy or herewith shall have been materially false at the time when made;

(c) The Company shall fail to perform its obligations under Section 2.03 or Section 3.01 hereof at the time required for performance of such obligations;

(d) Except as otherwise provided in this Section 4.01, the Company shall fail to perform any of its other obligations hereunder, provided that such failure continues for more than thirty (30) days after receipt by the Company of written notice of such failure to perform;

(e) The Company shall (i) voluntarily commence any proceeding or file any petition seeking relief under the United States Bankruptcy Code or any other Federal, state or foreign bankruptcy, insolvency or similar law, (ii) consent to the institution of, or fail to controvert in a timely and appropriate manner, any such proceeding or the filing of any such petition, (iii) apply for or consent to the appointment of a receiver, paying agent, custodian, sequestrator or similar official for the Company or for a substantial part of its property, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, (vi) become unable, admit in writing its inability or fail generally to pay its debts as they become due or (vii) take action for the purpose of effecting any of the foregoing;

(f) An involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (i) relief in respect of the Company, or of a substantial part of its property, under the United States Bankruptcy Code or any other Federal, state or foreign bankruptcy, insolvency or similar law or (ii) the appointment of a receiver, paying agent, custodian, sequestrator or similar official for the Company or for a substantial part of its property; and such proceeding or petition shall continue undismissed for ninety (90) days or an order or decree approving or ordering any of the foregoing shall continue unstayed and in effect for ninety (90) days; or

(g) An Event of Default (as defined in the Trust Agreement) shall have occurred and be continuing under the Trust Agreement.

Section 4.02. Remedies. If an Event of Default shall occur and be continuing, then Ambac may take whatever action at law or in equity may appear necessary or desirable, including, without limitation, legal action for the specific performance of any covenant made by the Company herein and the pursuit of remedies available under any collateral delivered pursuant to Section 3.01 hereof, to collect the amounts then due and thereafter to become due under this Agreement or the Bond Documents, or to enforce performance and observance of any obligation, agreement or covenant of the Company under this Agreement or the Bond Documents. If an Event of Default shall occur and be continuing, then Ambac may also give notice to the Trustee of the occurrence and continuation of an Event of Default under this Agreement and direct the Trustee to exercise any remedy available to the Trustee or the holders of the Bonds under the Bonds Documents, subject to the terms and conditions thereof. All rights and remedies of Ambac under this Section 4.02 are cumulative and the exercise of any one remedy does not preclude the exercise of one or more other remedies available under this Agreement, the Bond Documents or any collateral delivered pursuant to Section 3.01, or now or hereafter existing at law or in equity.

## ARTICLE V

### MISCELLANEOUS

Section 5.01. Certain Information and Notices to Ambac. While the Policy is in effect:

(a) the Company shall furnish to Ambac as soon as practicable after the filing thereof, a copy of each 10-K and 10-Q of the Company and a copy of any audited financial statements and annual reports of the Company; and

(b) the Company will permit Ambac to discuss the affairs, finances and accounts of the Company with appropriate officers of the Company.

If and to the extent that any of the information required to be furnished by the Company pursuant to subsection (a) above is included in a document or report filed with the United States Securities and Exchange Commission, then the Company shall be deemed to have satisfied such reporting requirement on the date on which such information has been posted on the Securities and Exchange Commission website on the Internet at [sec.gov/edaux/searches.htm](http://sec.gov/edaux/searches.htm) or at another website identified in a notice from the Company to Ambac and accessible by Ambac without charge.

Section 5.02. Parties Interested Herein. Nothing in this Agreement expressed or implied is intended or shall be construed to confer upon, or to give or grant to, any person or entity, other than the Company and Ambac, any right, remedy or claim under or by reason of this Agreement or any covenant, condition

or stipulation hereof, and all covenants, stipulations, promises and agreements in this Agreement contained by and on behalf of the Company and Ambac shall be for the sole and exclusive benefit of the Company and Ambac.

Section 5.03. Amendment and Waiver. Any provision of this Agreement may be amended, waived, supplemented, discharged or terminated only with the prior written consent of the Company and Ambac. The Company hereby agrees that upon the written request of the Trustee, Ambac may make or consent to issue any substitute for the Policy to cure any ambiguity or formal defect or omission in the Policy which does not materially change the terms of the Policy nor adversely affect the rights of the Owners, and this Agreement shall apply to such substituted Policy. Ambac agrees to deliver to the Company and to the company or companies, if any, rating the Bonds, a copy of such substituted Policy.

Section 5.04. Successors and Assigns; Descriptive Headings.

(a) This Agreement shall bind, and the benefits thereof shall inure to, the Company and Ambac and their respective successors and assigns; provided, that neither party hereto may transfer or assign any or all of its rights and obligations hereunder without the prior written consent of the other party hereto. Notwithstanding the foregoing provisions of this Section 5.04(a), Ambac shall have the right to reinsure any portion of its exposure under the Policy to third party reinsurers.

(b) The descriptive headings of the various provisions of this Agreement are inserted for convenience of reference only and shall not be deemed to affect the meaning or construction of any of the provisions hereof.

Section 5.05. Counterparts. This Agreement may be executed in any number of copies and by the different parties hereto on the same or separate counterparts, each of which fully-executed counterparts shall be deemed to be an original instrument, and all of which shall constitute but one and the same instrument. Complete counterparts of this Agreement shall be lodged with the Company, the Trustee and Ambac.

Section 5.06. Term. This Agreement shall expire upon the later of (i) the expiration of the Policy in accordance with the terms thereof, and (ii) the repayment in full to Ambac of any amounts due and owing to it by the Company under this Agreement or the Policy.

Section 5.07. Exercise of Rights. No failure or delay on the part of Ambac to exercise any right, power or privilege under this Agreement or the Bond Documents and no course of dealing between Ambac and the Company or any other party shall operate as a waiver of any such right, power or privilege, nor shall any single or partial exercise of any such right, power or privilege preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies expressly provided herein and in the Bond Documents are cumulative and not exclusive of any rights or remedies which Ambac would otherwise have pursuant to law or equity. No notice to or demand on any party in any case shall entitle such party to any other or further notice or demand in similar or other circumstances, or constitute a waiver of the right of the other party to any other or further action in any circumstances without notice or demand.

Section 5.08. Waiver. The Company waives any defense that this Agreement was executed subsequent to the date of the Commitment, admitting and covenanting that such Commitment was delivered pursuant to the Company's request and in reliance on the Company's promise to execute this Agreement.

Section 5.09. Entire Agreement. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes any and all prior agreements and understandings of the parties hereto with respect to the subject matter hereof, including but not limited to the Commitment.

Section 5.10. Notices. All written notices to or upon the respective parties hereto shall be deemed to have been given or made when actually received, or in the case of telecopier machine owned or operated by a party hereto, when sent and confirmed in writing by such machine as having been received, addressed as specified below or at such other address as any of the parties hereto may from time to time specify in writing to the other:

If to the Company:

Duke Energy Carolinas, LLC  
526 South Church Street – ECH04  
Charlotte, North Carolina 28202  
Attention: Treasurer  
Facsimile: (704) 382-3288

If to Ambac:

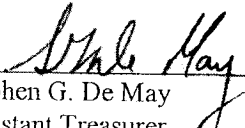
Ambac Assurance Corporation  
One State Street Plaza  
New York, New York 10004  
Attention: General Counsel  
Facsimile: 212-509-9190

Section 5.11. Governing Law. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of New York.

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IN WITNESS WHEREOF, each of the parties hereto has caused a counterpart of this Agreement to be duly executed and delivered as of the date first above written.

**DUKE ENERGY CAROLINAS, LLC**

By:   
Name: Stephen G. De May  
Title: Assistant Treasurer

**AMBAC ASSURANCE CORPORATION**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_


[North Carolina Capital Facilities Finance Agency  
\$50,000,000 Solid Waste Disposal Revenue Bonds, Series 2007B  
(Duke Energy Carolinas Project)]

**IN WITNESS WHEREOF**, each of the parties hereto has caused a counterpart of this Agreement to be duly executed and delivered as of the date first above written.

**DUKE ENERGY CAROLINAS, LLC**

By: \_\_\_\_\_  
Name:  
Title:

**AMBAC ASSURANCE CORPORATION**

By:   
Name: Hugh Welton  
Title: First Vice President

[North Carolina Capital Facilities Finance Agency  
\$50,000,000 Solid Waste Disposal Revenue Bonds, Series 2007B  
(Duke Energy Carolinas Project)]



## **ANNEX A**

### **DEFINITIONS**

For all purposes of this Agreement, except as otherwise expressly provided herein or unless the context otherwise requires, all capitalized terms shall have the meaning as set out below.

“Agreement” means this Insurance Agreement.

“Ambac” has the same meaning as set forth in the first paragraph of this Agreement.

“Annual Premium” means an amount equal to the Premium Rate in effect on each November 15 multiplied by the principal amount of the Bonds outstanding on such date.

“Bond Documents” means, collectively, the Trust Agreement, the Loan Agreement, the Note and any other documents and instruments delivered in connection with the issuance of the Bonds.

“Closing Date” means the date on which the Bonds are issued and delivered.

“Commitment” means the letter, dated September 26, 2007, issued by Ambac with respect to the Policy and acknowledged and accepted by the Company.

“Effective Interest Rate” means the “prime rate” announced by Citibank, N.A., from time to time, plus 1%.

“Event of Default” shall mean any of the events of default set forth in Section 4.01 of this Agreement.

“First Mortgage Bonds” means First and Refunding Mortgage Bonds issued by the Company pursuant to the Mortgage, and, if the Mortgage has been extinguished, any similar obligations issued by the Company which are secured by substantially all of the assets of the Company.

“Initial Premium means \$45,000.

“Make-whole Premium” means the amount of premium at any time payable pursuant to Section 1.02(iii) of this Agreement.

“Moody’s” means Moody’s Investors Service.

“Mortgage” means the First and Refunding Mortgage, dated as of December 1, 1927, between the Company and The Bank of New York Trust Company, N.A., as successor trustee, as heretofore and hereafter amended and supplemented.

“Owners” means the registered owner of any Bond as indicated in the books of registry maintained by the Trustee. The term “Owner” shall not include the Company or any person or entity whose obligation or obligations by agreement constitute the underlying security or source of payment for the Bonds.

“Person” means any individual, corporation, partnership, joint venture, trust, limited liability company or corporation, unincorporated organization or government or any political subdivision thereof, or any department, agency, authority or other instrumentality of any government or political subdivision thereof.

“Premium” means the Initial Premium, the Annual Premium and the Make-whole Premium.

“Premium Rate” means

(i) in the event that the Rating is “AA-” or higher (in the case of S&P) or “Aa3” or higher (in the case of Moody’s), 0.075%,

(ii) in the event that the Rating is “A-” or higher (in the case of S&P) or “A3” or higher (in the case of Moody’s) but clause (i) does not apply, 0.09%,

(iii) in the event that the Rating is “BBB+” (in the case of S&P) or “Baa1” (in the case of Moody’s), 0.095%,

(iv) in the event that the Rating is “BBB” (in the case of S&P) or “Baa2” (in the case of Moody’s), 0.125%,

(iv) in the event that the Rating is “BBB-” (in the case of S&P) or “Baa3” (in the case of Moody’s), 0.175% and

(v) in the event that the Rating is lower than “BBB-” (in the case of S&P) or lower than “Baa3” (in the case of Moody’s) or if S&P or Moody’s ceases to rate the long-term unsecured, unenhanced debt of the Company, 0.25%.

“Rating” means, as of any date, the lower of the ratings assigned by S&P and Moody’s to the Company’s long-term, unsecured, unenhanced debt.

“Regulated Utility Company” means a corporation, partnership, joint venture, trust, limited liability company or other legal entity engaged in the distribution of electricity, which is regulated by the applicable public service commissions in all of the states which comprise its service area.

“Reorganization” means any reorganization of the Company and its affiliates, or any transfer of a substantial portion of the assets of the Company, as a result of either of which the Company ceases to be a Regulated Utility Company.

“S&P” means Standard & Poor’s Ratings Service, a division of The McGraw Hill Companies.